

Message Text

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11

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 9042

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: FEDERAL GOVERNMENT AGREES TO ABSORB UP TO 50
PERCENT OF ICM EXPORT TAX CREDITS

REF: BRASILIA 9459

1. AS ANTICIPATED IN REFTEL, THE FEDERAL GOVERNMENT HAS ACTED TO TAKE SOME OF THE BURDEN OFF THE INDIVIDUAL STATES IN THE FINANCING OF BRAZIL'S EXPORT CREDIT SYSTEM ON MANUFACTURED PRODUCTS. BASED ON A DECREE-LAW SUBMITTED TO THE PRESIDENT OF THE REPUBLIC BY THE FINANCE MINISTER, WHICH IS EXPECTED TO BE SIGNED AND PUBLISHED IN THE DIARIO OFICIAL WITHIN THE NEXT FEW DAYS, THE FEDERAL GOVERNMENT HAS AGREED TO ABSORB UP TO 50 PERCENT OF THE STATE ICM TAX CREDITS BEGINNING JANUARY 1, 1977. THIS SHIFT IS TO BE ACHIEVED BY ALLOWING EXPORTERS OF MANUFACTURED PRODUCTS TO APPLY UP TO 50 PERCENT OF THEIR ICM CREDITS AGAINST IPI (FEDERAL) TAX LIABILITIES. THE DETAILS ON THE IMPLEMENTATION OF THIS SCHEME ARE TO BE OUTLINED IN INDIVIDUAL CONVENTIONS BETWEEN THE FINANCE MINISTER AND THE STATE SECRETARIES OF FINANCE.

2. COMMENT: BECAUSE OF THE IMPORTANCE OF
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ICM REVENUES (IN MOST STATES THESE AMOUNT TO

OVER 90 PERCENT OF TOTAL REVENUES) AND THE
TIGHT FISCAL SITUATION FACING MOST OF THE
STATES, THE STATES HAD BEEN CLAMORING FOR
SOME TIME TO HAVE THE FEDERAL GOVERNMENT
ABSORB PART OF THE BURDEN OF THE ICM CREDITS.
REPORTS CIRCULATING IN RECENT MONTHS INDICATED
IN FACT THAT THE STATES HAD ALREADY REDUCED
THEIR CONTRIBUTION TO BRAZIL'S SYSTEM OF
EXPORT INCENTIVES BY MAKING IT INCREASINGLY
DIFFICULT FOR EXPORTERS TO UTILIZE THEIR ICM
CREDITS. (ICM CREDITS COULD ONLY BE USED TO
OFFSET ICM TAX LIABILITIES SINCE THESE CREDITS
ARE NOT REFUNDABLE IN CASH. THE IPI CREDITS,
ON THE OTHER HAND, ARE IN THEORY REFUNDABLE
IN CASH ALTHOUGH IN PRACTICE IT IS VERY DIFFICULT
TO OBTAIN CASH FUNDS). ALTHOUGH THE SITUATION
MAY DIFFER FROM FIRM TO FIRM, THE PROBABLE
OVERALL NET EFFECT OF THIS LATEST MOVE WILL
LIKELY BE AN INCREASE IN THE UTILIZATION
RATE OF ICM CREDITS RESULTING IN A RISE
IN THE LEVEL OF SUBSIDY ON MANUFACTURED
EXPORTS. THE FINANCE MINISTER INDICATED
TO US IN THE COURSE OF A PRIVATE MEETING
BEFORE THE CHANGE WAS ANNOUNCED THAT THE
PRODUCTS COVERED BY THE SIMON-SIMONSEN
AGREEMENT (I.E., LEATHER HANDBAGS AND
CASTOR OIL, THE ICM CREDIT ON SHOES IS
COMING OFF ON JANUARY 1, 1977) WILL NOT
BE AFFECTED BY THE SHIFT.
CRIMMINS

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